DOCUMENT RESUME

ED 350 220 SO 022 418

TITLE	Economic Choices: China after Mao. High School and Junior College.
INSTITUTION	Stanford Univ., CA. Stanford Program on International and Cross Cultural Education.
PUB DATE	88
NOTE	51p.; The China Project.
AVAILABLE FROM	Stanford Program on International and Cross Cultural Education (SPICE), Littlefield Center, Room 14, 300 Lasuen Street, Stanford, CA 94305-5013 ($25.95, includes slides for this issue).
PUB TYPE	Guides - Classroom Use - Teaching Guides (For Teacher) (052)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*Asian History; Asian Studies; Communism; *Developing Nations; *Economic Change; *Economic Development; Economic Factors; Economics Education; Foreign Countries; High Schools; *Instructional Materials; Learning Activities; Socialism; Social Studies; Teaching Methods; Two Year Colleges; Units of Study
IDENTIFIERS	*China

ABSTRACT

This unit, developed for high school and community college students, has a two-fold purpose: to introduce students to free market and planned economic systems, and to examine China's recent efforts to supplement its planned economy with market mechanisms. The unit is appropriate for a variety of courses, including economics, social studies, contemporary issues, and Asian studies courses. The unit consists of four lessons and a teacher background article on recent economic reforms. Lesson 1 is an introduction, through slides, to the complex issue of defining appropriate development goals for a country. (The slides referred to in this lesson are not included with this document). It also introduces students to various policy periods characterized by differing development goals in post-1949 China. Lessons 2 to 4 examine topics ranging from free market versus planned economies, to China's recent introduction of incentives and free market mechanisms into its planned economy, and to an examination of both positive and negative consequences of the Chinese economic reform. The unit includes student handouts, interactive activities, primary source materials, and exercises to develop statistical skills. (DB)

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SPICE is sponsored by the Institute for International Studies and the School of Education at Stanford University.

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ECONOMIC CHOICES: CHINA AFTER MAO

High School and Junior College

The China Project
of the
Stanford Program on International
and Cross-Cultural Education
(SPICE)

THE CHINA PROJECT/SPICE

The China Project of the Stanford Program on International and Cross-Cultural Education (SPICE) receives funding from the Stanford East Asian National Resource Center (SEANRC) under Title VI provided by the U.S. Department of Education. The China Project, initiated in 1973, currently has over twenty curriculum units and resource guides on China.

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PREFACE

During the summer of 1986, through funding provided by a Fulbright-Hays Group Projects Abroad award from the Department of Education, the China Project/SPICE and the California International Studies Project (CISP) sponsored a six-week tour to the People's Republic of China for sixteen outstanding California pre-collegiate level teachers and administrators. The purpose of the trip was to experience China first hand and to develop curriculum materials. The goal was to develop a series of new units on post-Mao China, one being the present volume.

Curriculum development was integrated into every phase of the project -- during pre-departure orientations; during the academic programs in the Northeast Normal University, Beijing Normal University, and East China Normal University; and in a week-long writing workshop in Hong Kong at the end of the trip. During the sixteen months since returning, the new materials have undergone numerous revisions and have been thoroughly field-tested. It is particularly exciting that all publications in this series resulted from close collaboration between the China Project/SPICE staff and study tour group members, with the latter being the prime contributors to authorship.

My heartfelt thanks to the extraordinary group of individuals who participated in the China trip -- in many ways their comradery and talent made the trip. Their commitment to the curriculum projects, especially after the trip, is certainly above the call of duty and deeply appreciated. Many of us shall especially cherish the lasting friendships that were formed. Special recognition should be given to Susan Kroeger, Stan Seaberg, and Lee Torliatt for initial editorial work; to Sally Clark and Carol Murphey for wonderful slides and graphics respectively; to Professor Lynn Paine of Michigan State University for valuable assistance in Changchun; to Stephney Keyser and Lungching Chiao from the U.S. Department of Education for assistance during proposal writing; and to the many teachers who field-tested the materials and provided valuable feedback. Special thanks also to our Chinese hosts who made our study tour enjoyable and meaningful; and to Dr. Ron Herring, Tuckie Yirchott, and Bing Shaw for assistance with getting the study tour off the ground. However, the greatest debt is to former SPICE Director Dr. David Grossman who was personally involved with many phases of the project. His continual support ensured that these new curriculum units would materialize.

Michael Chang
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INTRODUCTION

Since the death of Mao Zedong in 1976, China has entered another period of rapid change. Economic Choices: China After Mao has a two-fold purpose: to introduce students to free market and planned economic systems, and to examine China's recent efforts to supplement its planned economy with market mechanisms. Developed for high school and junior college students, this curriculum unit is appropriate for a variety of courses, including economics, social studies, contemporary issues, and Asian studies courses. For California teachers, this unit addresses the Model Curriculum Standards for Economics in terms of introducing students to major economic systems and showing that such economic systems represent "the collection of institutions, laws, activities, controlling values, and human motivation that collectively provide a framework for economic decision making."

Economic Choices consists of four lessons and a teacher background article on post-Mao economic reforms. Lesson one is an introduction, through slides, to the complex issue of defining appropriate development goals for a country. It also introduces students to various policy periods characterized by differing development goals in post-1949 China. Lessons two to four examine topics ranging from free market versus planned economies, to China's recent introduction of incentives and free market mechanisms into its planned economy, and to an examination of both positive and negative consequences of the Chinese economic reform. Economic Choices includes a set of thirty slides, student handouts, interactive activities, primary source materials, and exercises to develop statistical skills. A background article also provides a concise overview of China's recent economic changes for teachers to read before introducing this unit to their classes.

LESSON 1
WHAT MAKES A COUNTRY RICH?

INTRODUCTION

What does it mean for a country to be rich or poor? On the surface, that might seem to be an easy question to answer, but an effort to create a precise definition might cause problems. This first lesson is designed to create a tentative definition of the terms "rich" and "poor." Students will start by writing a paragraph in which they try to define what it means to be a rich society, then analyze a set of slides, create a list of possible elements of a definition and look at a comparison sheet for four countries at different levels of economic development (the United States, Japan, the Soviet Union, and the People's Republic of China.) This introductory lesson sensitizes students to the complexity of defining development goals.

OBJECTIVES

At the end of this activity, students will be able to:

1. Provide a tentative definition of the terms "rich" and "poor."
2. Understand some differences in levels of development in the four countries.

GRADE LEVEL 9-12

TEACHING TIME two class periods

MATERIALS

Teacher Sheet A: Slide Narration
"What Makes A Country Rich?" (slide set)
Student Handout #1: Comparison Sheet
Student Handout #2: Timeline
Student Handout #3: Almanac Sheet
Student Handout #4: Glossary on China

PROCEDURE

1. Before Day One, as a homework assignment, ask students to determine how much living space in square feet they have in their homes. They should also ask their parents how much floor space there is overall in their homes (a rough estimate will do). Ask them to write down the figures for use in class.

2. Begin Day One lesson by asking students to write a paragraph on the topic, "What is a Rich Country?" Give them 5 to 10 minutes to get their ideas on paper.

3. Show students the first 14 slides, and using the slide

narration (Teacher Sheet A), ask them, in each case whether what is depicted tends to indicate that the country is "rich" or "poor" or something in between. After finishing the slides, the teacher should ask students to volunteer comments on how they defined the term "rich" in their paragraph. Make a list of answers on the board.

This discussion is open-ended and would hopefully get students to think about the many ways one might define "rich" or "poor." Is a country rich if it is militarily strong? Has substantial financial resources? Many TV sets? Good health record? Strong family values? A low level of violence? Little drug use? Anything else? The teacher might also want to ask: What makes an individual rich or poor? Is there a difference between "individual richness" and "national richness"?

After the discussion, collect the student papers, saying that the materials will be returned later in the lesson to allow students to redefine their definition and expand on the paper.

4. Ask students to take out a new sheet of paper and try to answer some questions on the U.S., Soviet Union, Japan and China. Questions can be given orally or written on the board.

a. Which of the countries has the most cars?
b. Which has the largest population?
c. Which has the most hospital beds?
d. Which has the highest life expectancy?
e. Which has the most TV sets?
f. Which of the four countries has the most living space per person?

Hand out Student Handout #1 (the comparison sheet) and ask students to look up the answers.

ANSWERS: a. U.S., b. China, c. Soviet Union, d. Japan, e. U.S., f. U.S.

As a follow-up on the homework assignment, ask students how their own living space compares to that in the other three countries.

5. For homework, assign the article "Timeline on Chinese Policy Changes" (Student Handout #2). This timeline discusses six periods of change in China from 1949 to the present. Ask students to read the entire handout for homework. Ask 10 students (or an appropriate figure) to be ready to report orally on two of the six periods of change. For example, 10 students could report on Consolidation and Reconstruction and The First Five Year Plan; 10 more on the Great Leap Forward and Retrenchment, etc. Tell them to check the glossary for difficult terms. This ends Day One.

DAY TWO

PROCEDURE

1. Go over the comparison sheet (Student Handout #1) with the students, highlighting the most important data. It might be worthwhile to focus, among other things, on: China's large population, the huge gap in per capita incomes, the number of motor vehicles in use in each society (note the high ratio of commercial to private vehicles in China), the gap in such consumer items as TV sets, phones and computers, the surprisingly high life expectancy of Chinese, the Russian edge in physicians over the U.S., the percentage of people in agriculture (few people on American farms compared to a vast number on Chinese farms), the amount of paved miles of road, and the amount it takes to buy a particular item.

2. Ask groups to report on the "Timeline" in class. Teacher should help students clarify ideas with which they have difficulty.

3. Hand out Student Handout #3 (Almanac Sheet) and Student Handout #4 (Glossary). (An alternative would be to give the almanac information in lecture form.) Ask students to read both for a quiz on Day Three. This ends Day Two.

TEACHER SHEET A
SLIDE COMPONENT NARRATION
WHAT MAKES A COUNTRY RICH? (14 SLIDES)

1. Skyscaper in Hong Kong. Does having plush, well-designed buildings make a country rich? Why?

2. Group doing morning exercises beneath Chairman Mao's statue at Beijing University. Does group identity and a sense of community make a country rich? Why?

3. Transportation in a country village. Do traditional types of transportation mean a country is lacking in richness? Why?

4. People gathered at an outdoor display to read the newspaper. Does the development of media make a country rich?

5. Seafood display at an open market. What is more impressive--the wealth of food or the lack of refrigeration? Is the lack of refrigeration a sign of poverty?

6. Barber shop in the street. Is doing business in the streets a sign of poverty?

7. Women washing clothes in the river. Is this an indication of poverty? Why?

8. Clothes drying in apartment building. Are appliances a necessity of the "rich life"? Why?

9. Cranes across the horizon. Does a boom in construction mean a society is rich? Why?

10. Farmer tends to his crop. Does lack of modern machinery determine richness? Why?

11. 7-11 store in Hong Kong. Do convenience stores such as this one indicate that a society has become rich? Why?

12. Family portrait. Do close family ties tell us something about "richness" in a society? Why?

13. Kids start early on a computer education. Is access to a good educational program a major area of enrichment? Why?

14. Life expectancy is increasing in many societies. Does richness include ability to get modern medical care? Why?

COMPARISON SHEET -- U.S., SOVIET UNION, CHINA, JAPAN

	U.S.	Soviet Union	PRC	Japan
1. Area (sq.mi.)	3.6 billion	8.6 billion	3.7 million	150,000
2. Population	236 million	272 million	1.035 billion	120 million
3. Gross Nat'l. Product	$3.7 trillion	$706 billion	$313 billion	1.2 trillion
4. Per capita income	$11,675	$3,000	$566	$8,460
5. Passenger vehicles	124,000,000	9,200,000	70,000	24.2 million
Commercial vehicles	35 million	7,900,000	900,000	8.9 million
6. T.V. Sets	143 million	75 million	15 million	30 million
7. Telephones	134 million	26.4 million	2.4 million	58.6 mill.
8. Computer	340,000	30,000	2,000	(Unknown)
9. Life expectancy at birth (yrs.) M	71.6	64	68	73
F	76.3	74	68	78
10. Hospital Beds	1.3 million	3.4 million	2.2 million	1.3 million
11. Physicians	455,000	1 million	1.3 million	163,000
12. Educational literacy	99 percent	99 percent	75 percent	99 percent
13. % of popul. in agriculture	3.3 percent	20 percent	74 percent	11 percent
14. Paved roads	3.1 million mi.	200,000 mi.	161,000 mi.	(Unknown)
15. Living space per person	450 sq. ft.	133 sq. ft.	30 sq. ft.	(Unknown)
16. Days' earning to buy bicycle	1.25 days	7 days	67 days	2 days

Source: 1986 World Almanac

STUDENT HANDOUT #2
TIMELINE ON CHINESE POLICY CHANGES
1949-1985

In the history of the People's Republic of China (1949-present), at least six periods stand out: Reconstruction (1949-1952), the First Five Year Plan (1953-1957), The Great Leap Forward (1958-1959), Retrenchment (1960-1965), The Cultural Revolution (1966-1976), and the Post-Mao era (1977-present).

1949-1952: Consolidation and Reconstruction

Immediately following the establishment of the People's Republic of China, the chief concern of the state leaders was to restore order and to rebuild and consolidate their power that was weakened in decades of civil war with the Kuomintang government and by years of involvement in World War II. In the international arena, China and the Soviet Union signed a 30-year treaty of alliance. However, the U.S. refused recognition of the new Chinese government. On Nov. 26, 1950, because the U.S. had ignored Chinese warnings not to move too close to China, China sent armies into Korea against U.S. troops and forced a stalemate.

In agriculture, the PRC sought land reform, especially in removing landlords from power. They destroyed the landlord class, by confiscating their land, and redistributing it to the peasantry. In industry, the government took over (nationalized) many foreign and private businesses. In education, a large-scale literacy campaign was started.

1953-1957: The First Five-Year Plan

During this second period, national leaders began in a planned, gradual way to bring about changes in agriculture, industry, and education. Much of the inspiration for the form of these changes came from the Soviet experience. This was the "high tide" of Soviet-Chinese friendship. In agriculture, low levels of cooperative activities were begun, while major investment went into heavy industries, which were state run. Educational approaches were borrowed mainly from the Soviet Union with emphasis on the urban areas.

1958-1959: Great Leap Forward

Chairman Mao's Great Leap Forward tried to force the pace of economic development through intensive labor on new rural communes, and through emphasis on ideological purity and enthusiasm. The program was unsuccessful and was largely abandoned. Serious food shortages developed which brought on large-scale starvation and China was forced to buy grain from the West. Although the exact number of deaths is not known, it is estimated that millions of people died from starvation at this time.

During this period, the split with the Soviet Union also began. On one hand the Soviet Union was angry with China because it had abandoned their economic model during the Great Leap Forward. On the other hand, China was upset because the Soviet Union did not support it during its conflict with the U.S. over control of the Taiwan Straits (1958), a body of water that separated the PRC from the Nationalists on the island of Taiwan.

1960-1965: Retrenchment

The failure of the Great Leap, coupled with natural disasters and the growing split with the Soviet Union, produced a retreat. Policies were initiated to develop the technically advanced sector of society (urban rather than rural areas.) The Soviet Union and China came into conflict over borders, the ideology of Marxism-Leninism and the question of which nation would lead the worldwide Communist revolution. The USSR cancelled aid agreements, and China, with Albania in Eastern Europe, launched anti-Soviet propaganda drives. At the same time, the U.S. was getting involved in a war in Vietnam on China's southern border. In agriculture, there was a reversal of the Great Leap policies. Private plots and limited free markets were restored, while communes were reduced in size. Industry focused on the advanced technology sector and material incentives, such as bonuses, were introduced in factories.

1966-1976: Cultural Revolution

The Cultural Revolution was Mao's attempt to instruct a new generation in the principles of revolutionary communism. There were massive purges in which many people were removed from their jobs or political office. The policies emphasized political correctness and revolutionary zeal, rather than the views of experts in their fields. Many people died during this period of turmoil.

In education, schools closed, and then re-opened with heavy political emphasis on determining curriculum, selection of students and administrative policies. A program was launched to forcibly relocate millions of urban teenagers in the countryside. By 1968, the main part of the movement had run its course, and many purged officials returned to office in subsequent years. Numerous students interviewed in 1986 expressed sharp criticism of the program, which they felt cost them two to four years of their lives that could have been better spent getting on with their careers.

In international affairs during this time, tensions built up as the Vietnam War intensified. In 1971, the PRC was admitted to the United Nations, and took over the Republic of China's (Taiwan) seat. The U.S. supported the PRC's admission but opposed Taiwan's expulsion. In 1972, in a surprise move, U.S. President Richard Nixon visited China, following years of tension

between the two countries.

1977-Present: The Post-Mao Era

With the death of Mao, and the arrest of radical leaders known as the "Gang of Four" in 1976, Chinese leaders began to criticize the policies of the Cultural Revolution. The new task for China, they argued, was not class struggle but modernization of all parts of the nation's life to provide better living conditions. The earlier concern with some form of equity (everyone being paid about the same, for example) was tempered by a renewed emphasis on efficiency and material growth, even if it meant that some people would be economically rewarded more than others. In international affairs, China provided more of an "open door" to trade with Japan, the U.S. and other Western countries. There were also increased purchases of western technology under leader Deng Xiaoping. In both agriculture and industry, there was more emphasis on local controls and providing incentives for better production. Special Economic Zones were also established to attract joint ventures with foreign companies.

STUDENT HANDOUT #3
ALMANAC SHEET
GENERAL INFORMATION ON CHINA

China is the most populous country in the world, with an estimated population of 1,035,000,000 in 1986. The population density is 290 people per square mile, which compares with the U.S. figure of 65 people per square mile. The two countries have approximately the same area. Two-thirds of the land in China is mountainous or desert and only one-tenth is cultivated. The eastern half of China is one of the best-irrigated areas in the world. In the early 1980's, China produced enough food to feed itself and export major crops. Most of China's people live on the land. The main crops are grain, rice, cotton and tea. Industry includes iron and steel, plastics, agricultural implements and automobiles. There is heavy use of coal as well as nuclear and electric power for energy. The country has the largest reserve of coal in the world and is also an exporter of oil. Its main bilateral trading partners are Japan, Hong Kong, and the United States. In 1983, imports totalled $21.3 billion and exports $22.1 billion. Individuals usually travel by bicycle, train or on foot. The literacy rate is 75%, and, under recently-enacted laws, school is required through the ninth grade.

STUDENT HANDOUT #4
GLOSSARY ON CHINA

China Market	The attitude of some non-Chinese businessmen that China, with its population of one billion people represents a major market for western consumer goods (for example, aspirin and deodorant).
Communism vs. Socialism	According to Marx, socialism is a stage towards communism. In both socialism and communism, the essential means of production (e.g. factories, land, etc.) are publicly owned, but the distribution of economic rewards are according to amount of labor performed in socialism, and according to need in communism. In China, sometimes the distinction is maintained and other times the two terms are used interchangeably.
Cultural Revolution	A violent period (1966-1976) in which China, led by Chairman Mao, attempted to return to "Pure Communism." Policies emphasized correct political thinking, revolutionary zeal and the socialist ideal of egalitarianism. Many schools were closed, then re-opened with heavy political emphasis in the curriculum and other areas, examinations were abolished, and teachers and other experts were removed from jobs and sent to the countryside to work.
Deng Xiaoping	Main leader of China in the late 1970s and 1980s. Deng is known as a practical leader who has created economic reforms including closer contacts with the outside world and more emphasis on allowing farmers and others to make a profit on some goods which they grow and sell.
Four Modernizations	An effort started in the late 1970s following the Cultural Revolution, to modernize China in the four areas of industry, agriculture, science, and the military.
Free Market	An economy that responds to the supply and demand of the marketplace, a basic feature of the capitalist model. In the 1970's China modified its planned economy with elements of the free market approach.

Mao Zedong	The leader of the PRC from 1949 until his death in 1976. Prior to 1949, Mao proved to be a great military leader during the communists Long March. As a statesman after 1949, he was responsible for the Great Leap Forward and the Cultural Revolution.
Planned Economy	An economy in which planning is done by the central government and implemented in different spheres of society such as industry and agriculture.
PRC vs. ROC	After the end of the civil war in 1949, the Nationalist Government (Kuomintang) retreated to Taiwan where it continued as the Republic of China (ROC). The ROC is not to be confused with the People's Republic of China (PRC) which was established as the government of mainland China after the Communists defeated the Nationalists in 1949. Both claim to be the sole government for all of China.
Responsibility System	Since the late 1970's this term has been used to describe the program which gives greater freedom to State-controlled enterprises and individual farmers to make their own decisions in the production process. For instance, the state contracts out land to farmers, and once the production quota is met, farmers can decide how to use the surplus.
Unit	The basic social organization with which every Chinese person is identified. It is often a work unit, but can be a university, a residential unit, or other kind of unit.
Yuan	The Chinese unit of money. In 1987, the yuan was equal to 3.7 U.S. dollars.

LESSON 2
PLANNED VERSUS FREE MARKET ECONOMIES

INTRODUCTION

To have meaning for students, the study of economics should get beyond abstract concepts and deal with group motivation and behavior. Current and proposed reforms in the Chinese economy will affect the people in China in a variety of ways. It is important for students to deal with the reality of some of these changes, because similar issues occur in all societies. For example, a fundamental question that exists is: Can a society produce and distribute resources on a fair and equitable basis and still provide the incentives to work harder and produce more? Although this question will be applied to the Chinese economy, it is a basic question that can be addressed in any society.

OBJECTIVES

Students will:

1. Begin to understand the role of incentives in an economy.
2. Understand the trade-offs between individual incentive and equity in an economy.
3. Begin to see the difference between a planned and free market economy.
4. Begin to understand the situations of individual Chinese in the Chinese economy.

GRADE LEVEL 9-12

TEACHING TIME two class periods

MATERIALS

Teacher Sheet B: Glossary Quiz
Teacher Sheet C: Planned vs. Free Market Economies
Teacher Sheet D: Allocation of Resources Model
Teacher Sheet E: Slide Narration
Student Handout #5: Quotations from Past and Present
Student Handout #6: Workers of China

DAY 3

PROCEDURE

1. Tell students they will be asked to take a glossary quiz (Teacher Sheet B). Half of the class will be judged on an individual basis and the other half will be graded on the basis of how well their entire group does on the test. In other words, in the second group, everyone will get the <u>average</u> grade of the group, no matter how well or badly they do. Start the period by giving the quiz and correcting it in class. Give half the students credit for their individual scores and the other half credit depending on the average score of the group. (It might be desirable to assure students at some point that this assignment will not have a major effect on their overall class grades.)

Discuss the grading system with the class. Ask whether they

think the grading approach used on the glossary quiz was fair. How did they feel about the approach? What would they do differently if this approach were to be used again? Are there ways the group could work together to improve their scores? Who benefits from the individual grading approach? Who benefits from group grading?

This exercise is designed to give the class experience in exploring the trade-offs between equity and individual incentive as the basis for the distribution of scarce resources.

2. Next the teacher, using "Planned vs. Free Market Economies Information Sheet," (Teacher Sheet C) should give students background on these two basic economic systems, asking students to take notes for future reference. (As an alternative, teacher can make copies of the Information Sheet and give them to students, with an explanation of the terms.)

3. Put the framework for "Allocation of Resources" (Teacher Sheet D) on the board. Have students form into groups of five and fill in the boxes on advantages and disadvantages of the three methods: a) Resources are kept by person who produces/owns the resources (a farmer, for example, who grows his own crop); b) Resources are shared equally, no matter who produces the most; c) A higher authority (a local or national government) decides how resources are to be distributed.

Discuss the advantages and disadvantages of each approach.

4. For homework, hand out copies of Student Handout #5 (Quotations) and Student Handout #6 (Workers of China). Ask students to read both, and be prepared to recieve further instructions on Day 4. Also, regarding Handout #5, ask students to write a paper on whether they think each quotation fits in with the Planned Economy Approach or the Free Market Approach.

DAY 4

1. Go over the answers to Student Handout #5. Quotations 1 and 4 would fit the Free Market model; quotations 2,3 and 5 would fit the Planned Economy model. Discuss the quotations with students, clarifying their meanings. For example, when Deng Xiaoping makes his "black cat, white cat" remark (quotation #4), he is saying that China should try whatever will work, whether it is planned or free market economy.

2. Direct students' attention to Student Handout #6. Show the eighteen "Workers of China" slides, reading the Narration (Teacher Sheet E) as you proceed. Ask students to look over the handout again. From the six choices, have them pick out the job they would be most interested in holding. Have them write a paragraph (perhaps half a page) justifying their choice.

Follow up by asking students at random why they made the choice that they did. Also, ask them how they think each person in the different job categories might view recent reforms in Chinese society (the move from planned economy to more free market activities.)

In the course of the discussion, ask: **Is there a contradiction between what is good for the whole economy and what is good for the individual?** (Chinese, American or other examples can be used.) Questions relating to this issue don't suggest easy answers, but it is useful for students to be exposed to these ideas. As time allows, close the day with a brief discussion of possible problems associated with a greater dependence on incentives.

TEACHER SHEET B
GLOSSARY QUIZ -- CHINA

NAME _____

_____ 1. In 1987 the U.S. Dollar was equal to: a. 123 Chinese Yuan; b. 6 Chinese Yuan; c. 2.5 Chinese Yuan; d. 3.7 Chinese Yuan.

_____ 2. An area NOT mentioned as part of the four modernizations is: a. sports; b. agriculture; c. science; d. military.

_____ 3. After the civil war in 1949 the Nationalist government fled to Taiwan where it established itself as: a. the People's Republic of China; b. The Republic of Taiwan; c. The Republic of China; d. Red China.

_____ 4. The "free market" approach to economics is most often associated with: a. Fascism; b. Nazism; c. Capitalism; d. Communism.

_____ 5. The "planned" approach, in which the economy is planned mostly by the central government, is characteristic of: a. Fascism; b. Nazism; c. Capitalism; d. Socialism/Communism.

_____ 6. The Chinese program, started in the late 1970's, to give people in industry and agriculture the right to make more of their own decisions (rather than waiting for orders from the top), is called: a. Revisionism; b. Responsibility System; c. Joint Venture; d. Cross-cultural Cooperation.

_____ 7. Agreements between China and foreign countries to do business together are known as: a. Revisionism; b. Responsibility Systems; c. Joint Ventures; d. Cross-cultural Cooperation.

_____ 8. The so-called "China Market" mentality has to do with the desire of foreigners to sell Chinese: a. military goods; b. exotic food items; c. western movies; d. any goods in large volumes.

KEY:

1. d
2. a
3. c
4. c
5. d
6. b
7. c
8. d

TEACHER SHEET C
INFORMATION SHEET
PLANNED VS. FREE MARKET ECONOMIES

Any society faces the problem of deciding what goods or services are to be produced and how the products are to be distributed. The following describes two different economic systems which have evolved to meet this challenge.

Free Market Economy

In an ideal free market economy the individual may choose what goods or services he or she wants to produce. The decision is based on what the producer perceives will generate the most profit. Or to put it another way, the decision is based on what people will buy as opposed to what is most useful to society. It is also believed that what people will buy is also the most useful. The free market system is based on the theory of supply and demand. In theory, the producer enters a market because there is demand enough for a product, and tries to work as efficiently as possible to make a profit. As long as there is enough demand for his or her product, and a profit can be made by producing it, the producer will stay in the market. If there is little or no demand, and producing does not yield a profit, then the producer will drop out of the market in search of some other more profitable products. In reality, government regulation is unavoidable but it is minimized.

Planned Economy

In an orthodox planned economy decisions concerning the production and distribution of goods are made by the government. It bases this decision on what will be the most useful to society, in contrast to the market system where profit of the individual is the key motivating force. The decision of what to produce is made by a central planning committee, which then develops a production plan according to the needs of society as a whole. It is believed that what is good for society ultimately benefits the individual as well. Another feature of this system is that the government controls the supply of labor and wages. In planned economies, the job a person performs is determined by the government.

It is important to note that planned economies and market economies are not necessarily mutually exclusive. Free market economies may employ some elements of the planned economy system. (An example of this in the U.S. is the social security system where the government decides how money should be spent for the benefit of society.) Similiarly, some planned economies employ principles of the free market system. (i.e. In China, the market mechanism is used to supplement planning.)

TEACHER SHEET D
ALLOCATION OF RESOURCES MODEL

INSTRUCTIONS: Have students fill in the grid below.

METHOD OF ALLOCATION	ADVANTAGES Who gains?	DISADVANTAGES Who loses?
1. Resources allocated to person with the resources (i.e. everybody keeps what he/she grows).		
2. Resources shared / equity (food is shared equally no matter who grows most).		
3. Authority (gov't) decides who gets resources.		

KEY:

	ADVANTAGES	**DISADVANTAGES**
1.	Those who have worked the hardest get the most reward.	Rich get rich; there may be little or nothing left for the poor.
2.	Everyone gets something; no one is left out.	There may be little if any incentive to work; one is rewarded for working hard or not.
3.	The people making the choice can have an overall view which will lead to fair decisions, and good long-range planning.	People are left with little freedom; somebody else is making decisions for them. Central authorities may lack information on local conditions and needs.

TEACHER SHEET E
NARRATION FOR SLIDE COMPONENT
WORKERS OF CHINA

A. Train Worker

15. The only remaining steam locomotive plant in the world is located in Datong, Central China.

16. Guen is one of 9,000 workers at the giant plant. Workers earn about 80 yuan a month, but can get bonuses of up to 100 yuan a month, plus inexpensive housing, medical care, and other benefits.

B. Actress

17. Ping performs with an experimental theater group in Shanghai.

18. The group performs both modern and traditional plays. This is a scene from a controversial play about a university student's questioning the meaning of life.

C. Farmer

19. Meng Guo is a farmer in northern China.

20. His house has a small garden in the front yard. On sunny days, quilts are hung out for airing. Better housing, TV, and portable radios are among items desired by farmers and other Chinese as they gain more discretionary income.

21. Good crop harvests allow farmers to sell part of their crop on the free market and pocket the profit.

D. Teacher

22. Even though he is physically separated from his wife, Larry feels that teaching is important and plans to pursue it as a career.

23. Chinese students find competition heavy. Only a few get into prestigious "key" schools that train top students.

24. Still, there is time for relaxation. These students take time out for a sociable game of ping pong.

E. Free Market Worker

25. Han Bin sells clothing in a free market where furniture, food, and other items are also sold.

26. Watermelons come to market bright and early in season. On top of the truck cab, a worker takes a nap. Melons will be unloaded and sold on the street; residue from the previous day's sale can be seen in front of the truck.

27. A free market tobacco seller samples her own product.

F. Bike Salesman

28. Guo Qiang checks a bike tire before making a sale. He says that booming sales mean "I won't get rich but China will."

29. Two and three wheeled vehicles are used to carry almost everything.

30. Parking lots in China are mostly for bikes, less often for cars.

STUDENT HANDOUT #5
QUOTATIONS FROM PAST AND PRESENT

1. "To get rich is glorious."

2. "Down with all followers of the capitalist path."

3. "From each according to his ability, to each according to his need."

4. "Black cat, white cat -- It's a good cat if it catches mice."

5. "Never forget the class struggle -- carry the Communist Revolution through to the end."

STUDENT HANDOUT #6
WORKERS OF CHINA

A. Guen, 43, is a worker at the locomotive factory in Datong. Datong is the only factory in the world still producing steam locomotives. There is a total of about 9,000 workers, 2,000 of whom are directly connected with the production process. The factory is owned by the government and workers receive many benefits, such as: free medical care, schooling and housing for about two yuan (60 cents) per month. About 95% of the workers live in the provided housing. Guen was born in Datong and completed eight years of school. He has worked for the company for 25 years and can look forward to retirement at age 60 that will pay about 70 to 100 percent of his regular work salary. His pay is 80 yuan per month and he can earn as much as 100 yuan more each month, based on incentives. The factory uses a production process that has not been modernized and there are questions about its efficiency in turning out locomotives.

B. Ping, 25, is an actress in a Shanghai drama group. Ping joined the group two years ago and usually performs in two plays a year. She has the lead in the current production of a controversial modern comedy called, "The Genius and The Idiot." She also recently performed in "Anthony and Cleopatra." She may perform in a play six times a week for a month and then have a period of free time. This free time allows her to do voice dubbings for foreign TV series and an occasional movie part. Her most recent job involved doing a dubbing for a TV soap opera from Germany, for which she is paid 150 yuan. Her monthly pay as an actress is 74 yuan, and she can receive a monthly bonus of up to 30 yuan. She lives with her parents and commutes by bus. As a city worker, she has a free medical plan. She is attractive and talented and seems to have a bright future.

C. Meng Guo is a farmer in a Korean minority village in Jilin Province, Manchuria. This is a rich agricultural area and people here are generally prosperous. Based on the new "Responsibility System," farmers are allowed to sell items on the free market that exceed their government quota. At present, about 60 percent of farm production for the country exceeds the quota and much of this is sold at the free market. Most of the group effort goes toward the production of rice, but individuals raise chickens, rabbits, ducks, or fish, and there are some small industries producing bricks, fertilizer, cement, and mirrors. These products are used in the village or sold, some of them going to Jilin City, about 25 miles away. Schools and medical care are available in the village. For more serious illnesses, the hospital in Jilin charges country people a small fee. Neighbors chip in for those who can't pay. Average per capita (per person) income is about 1500 yuan per working person. The living standard is higher than average; most homes have TVs and other amenities.

D. A 30-year old man, known as Larry in English, is an English teacher in Changchun, in northeast China. His wife, who is a doctor, has been assigned to work in a village about 125 miles away. They hope to be able to get jobs together soon. Larry makes about 75 yuan per month and knows that his salary is not up to the level of others in society, but he believes teaching to be important and plans to stay with it. Larry is concerned that since more food is being distributed through the free market, prices will continue to rise and make living more difficult. As a doctor, his wife makes about the same income as he does. There are a few opportunities for him to pick up extra money tutoring students preparing for the college entrance exam. One good aspect of his situation is that his housing costs only about 3 yuan per month.

E. Han Bin, 23, sells men's clothes at a street market in Xian. When he left middle school (high school) seven years ago, he was not placed in a job and became part of the group that was "waiting for work". As restrictions on the economy started to ease in the early 1980's, he found that he could acquire goods produced in the countryside and sell them in the city of Xian. He now works with a friend who travels the area around Xian looking for clothing that has been produced by rural industries. At first, there was some uncertainty about how open they could be with these activities, but the government has encouraged this approach in the last few years. Since he does not have a work unit, Han must pay for his own medical expenses. But with a monthly income of 500 yuan and his good health, this doesn't seem to be an immediate problem.

F. Guo Qiang is a motorcycle and bike salesman at the large Changchun Department Store #5. Guo works for the state and does have many free benefits, but his monthly income is only 60 yuan. He is responsible for selling a range of bikes and two types of motorcycles. He approaches his job in a courteous and efficient manner. When asked if he would get rich if he sold more bikes, his answer was, "I won't get rich, but China will." As of 1984, three-quarters of peasant households had bicycles and worker households had one-and-a-half bicycles on the average. In many ways, a bicycle salesman might be compared to a car salesman in western society.

LESSON 3
ECONOMIC PLANNING SYSTEMS

INTRODUCTION

Tell students that every society must answer the following economic questions: What products should we produce? (guns, butter, cars, bicycles, deodorants, etc.) How should we produce them? (by hand, machine, robots, etc.) For whom should we produce them? (upper class, middle, lower; adults, teens, women, men)

The answer to these questions will be determined by the values and goals of each society. At the present time, China is shifting some of the responsibility for answering these questions from the central authority of the government to individuals within society. The manner in which China answers these questions will affect not only the one billion people in China but the world economy as well.

OBJECTIVES

Students will

1. Clarify the differences between a free market and a planned economy.
2. Begin to understand systems of economic planning.

TEACHING TIME two class periods

GRADE LEVEL 9-12

MATERIALS Teacher Sheet F: Four Modernizations Information Sheet
Student Handout #7: China Daily Article

DAY 5

PROCEDURE

1. Ask students to think of a time recently when they had to make an economic decision, for example, deciding whether or not to buy some item. Ask students: **What was your goal? To make up with a friend? To please someone? To keep yourself from starving? To provide yourself with some diversion, such as music?**

What factors did you consider? Will I make someone happy? Do I have enough money? Is this something I really want? Will I be part of the "in" crowd?

2. After a brief discussion, point out once again to students that decisions have to be made in economic systems about what goods to produce, how to produce the goods, and for whom the goods should be produced. Remind students that the two basic approaches are the Planned Economy and the Free Market. To review the Planned Economy and Free Market ideas, draw a horizontal line on the board showing Planned Economy on one end and Free Market on the other. Give students a brief review of the concepts covered on Day 3.

Ask students to draw the Command-Free Market continuum on a sheet of paper of their own and place the following economic activities where it seems appropriate on the line. The teacher

might want to help students with the first one to give them an idea of how to approach the exercise.

(This exercise should help students to focus on questions of economic freedom and social justice in society. For instance, students should be able to see that example f, providing education, involves both the planned and free market approaches. Why should a society decide to use both approaches to provide education?)

ECONOMIC ACTIVITIES:

a. Mail delivery (near planned economy end)
b. Package delivery (This might go more in the middle since U.S. mail and private air express and other companies are involved. It is both a private and public activity.)
c. Buying a car (near Free Market).
d. Assistance to unemployed person (near the Planned Economy end, with government sometimes giving assistance to private businesses to help poor people).
e. Medical care (Free Market in U.S.; it would be Planned Economy if health insurance were involved).
f. Providing education (near the middle because the U.S. has a mix of private and public schools).
g. Building a submarine (in the middle, government gives its contracts to private companies).

4. Distribute Student Handout #7 (the article "How China's Economic Planning System Works.") For homework, ask students to read the article and write briefly how the three approaches work. Tell them to be prepared to discuss the article on Day 6.

DAY 6

PROCEDURE

1. Go over the three economic approaches explained in the article, "How China's Economic Planning System Works." Point out to students that these three approaches point up the fact that not all economic decisions have to be made in the same way in a society.

The article discusses these three approaches: Mandatory, Guidance and Market Regulation.

2. Following discussion, have students take lecture notes on a presentation of the Four Modernizations by the teacher.(Teacher Sheet F)

TEACHER SHEET F
FOUR MODERNIZATIONS INFORMATION SHEET

Chinese leader Deng Xiaoping has implemented a policy to modernize the Chinese economy, which moves the country away from the planned economy approach and towards the application of some free market mechanisms. Here is a brief summary of the old and new approaches (before and after Deng's reforms).

I. Agriculture

OLD. Until 1979, China's peasants were organized into communes, villages or areas grouped together as economic units. The number of people in a commune ranged from a few hundred to many thousands. The commune owned the land and teams of 20 or 30 workers farmed a brigade's field. They recieved a salary that paid according to workpoints, which, most of the time were based on a worker's relative strength and the number of days he or she worked. In addition they received a share of the harvest. Result: Production levels were low.

NEW. The Responsibility System has been implemented. Collectives still own the land, but it is broken into smaller units and farmed by families or individuals. Farmers sell a quota of what they grow to the government, and can sell or eat whatever extra they produce. Result: Harvest yields have increased.

II. Industry

OLD. Government operated the factories and received the profits.

NEW. State-controlled enterprises are being given more freedom. Managers of factories are making more decisions. A portion of profits is being given to the workers, and investments are being channeled into raw materials and equipment. An effort is also being made to end the "iron rice bowl" concept, which means that workers are guaranteed lifetime jobs. Similarly, industries are now financially responsible and can go bankrupt.

III. Science and Technology

OLD. During the Cultural Revolution, people were generally rewarded more for their political "correctness" than for their technical or academic skills. Many educators and researchers were forced to go to the countryside to do menial tasks.

NEW. Education is being stressed. The brightest teenagers, judged on the basis of rigid examinations, are allowed to enter the elite "key" schools. Scientists and technicians

are now being rewarded with high salaries, good housing and cash bonuses.

IV. Military

OLD. China has the world's largest military (army) force, but its equipment is out-of-date, and many of the soldiers are relatively uneducated people from rural areas.

NEW. China is trying to provide better training for its military personnel, and is also making contact with the U.S. and other countries in search of modern weapons.

China Daily, April 30, 1986

How China's economic planning system works

An understanding of national economic planning system helps smooth foreign business activities in China's planned commodity market.

In China, business activities are governed by three different economic planning systems.

The mandatory plan

Some kind of business activities, involving the manufacture of important industrial and consumer goods are directly controlled by the state through mandatory planning. The output of such products is fixed by the mandatory plan. Manufacturers can do no more than turn out the required number of products in a fixed period of time.

In tandem with the mandatory plan are mandatory prices, fixed allocation of raw materials and controlled sales of products. If manufacture of a product is included in the mandatory plan, the state ensures supply of raw materials needed for production and designated which corporations will buy the goods at what prices.

If a Sino-foreign joint venture falls under the auspices of the mandatory plan, its success is virtually guaranteed.

The mandatory plan may establish minimum and maximum quotas.

Under the minimum quota, the manufacturer is required to turn out a prescribed quantity of products but excess production is encouraged and allowed.

The excess may enter the market at the manufacturers discretion and its prices may fluctuate within government-set limits. Under the system the manufacturer may reap additional profits by overproduction.

Under the maximum quota, business entities are required to fill a production target, but excess production is barred without specific approval.

The mandatory plan carries legal weight. All business transactions must adhere to the plan. Authorized changes in the mandatory plan may relieve contractual parties from performance obligations under the contract. Violations of the mandatory plan void a contract.

The guidance plan

The guidance (or indirect) plan is used by the state to guide development of the national economy and stimulate the market.

The guidance plan sets targets for manufacturers, which may or may not be based on market conditions. The manufacturers, however, bear the responsibility for failing to attain targets.

The State may take measures to help manufacturers meet guidance plan targets, such as reducing taxes, providing certain raw materials and raising or lowering prices. The guidance plan thrusts businesses into the competitive marketplace rather than tucking them under the State's wing.

Market Regulation

The manufacture of certain farm and sideline products and small household articles is subject to market forces. State economic plans have no direct effect on them, giving manufacturers freedom to determine production, arrange raw material supplies and engage in selling.

Authority to categorize products into one of the three economic realms lies with the State Planning Commission upon approval of the State Council. As the national economy develops, major revisions in the plan can be expected.

China updates its State economic plans every year. The annual plans are drafted by the State Planning Commission in accordance with the five-year plans approved by the National People's Congress.

Once the annual economic plans are approved by the State Council, economic quotas established under the plans are distributed among lesser planning commissions under various ministries, provincial, regional, and municipal governments under the direct control of the central government. These lesser bodies apportion economic quotas among all businesses operating under their auspices or affiliated to their jurisdiction.

LESSON 4
THE FOUR MODERNIZATIONS

INTRODUCTION

China's current set of reforms are geared towards a liberalization of the economy through decentralization and the introduction of some market mechanisms. To date, the reforms appear to be successful. However, some problems have arisen. The goal of this lesson is to explore these problems and to try and distinguish the successes and failures of the reforms thus far.

OBJECTIVES

students will:

1. Learn to use statistics to support what they say.
2. Learn to identify the positive and negative aspects of reform.
3. Learn to summarize readings.

GRADE LEVEL 9-12

TEACHING TIME two class periods

MATERIALS Student Handout #8 Statistics Sheet
Student Handout #9 Take The Initiative and Run
Student Handout #10 Problems of Doing Business in China
Student Handout #11 To Get Rich is Glorious...But

DAY 7

PROCEDURE

1. Distribute Student Handout #8 (Statistics Sheet). Ask students to carefully read the statistics. As a class, discuss what each statistic means and what the numbers imply.

2. Using these statistics to support what they say, have them write a paragraph or half a page on the progress/success of the Chinese Economy since 1978. (Allow 30 minutes.)

3. Have several students volunteer to read their papers aloud. Discuss the various ways in which the same statistics can be interpreted to uphold different arguments and to prove different points.

4. Distribute copies of Student Handouts #9, #10, and #11 to each student. As a homework assignment, tell the students to carefully read each handout. Tell students that they are preparing for a

debate.

DAY 8

PROCEDURE

1. Divide the class into two groups (two debate teams). As in a debate, announce the topic to be discussed. ("Proposed: China should continue with its economic reforms.") Give students 10 minutes to prepare their opening comments. (Remember, one team will be told to agree with the proposal, the other to disagree.)

2. After allowing the debate to continue for a reasonable length of time, bring the debate to a close and list on the blackboard all of the arguments that were offered (make a list of the pros and cons of reform).

3. Return the homework from the Statistics Sheet. Ask students if they think the reforms are as successful as the statistics indicate. Ask the students what changes they would make in their homework answer if they rewrote it now.

4. Return the original papers written by students on "What makes a country rich?". As a final assignment, ask them to revise their papers in light of what they have learned. Tell them they may use the comparison sheet to help them. They may also bring in information from other sources that they think might be relevant. It might be good to suggest that students look at a number of factors that might help define "richness." These factors can be economic or non-economic. For example, a society that has family unity might be considered "rich" even though it is poor economically. Many economic factors can be brought in, of course, as suggested in the Comparison Sheet.

STUDENT HANDOUT #8
CHINESE ECONOMY AFTER MAO
STATISTICS SHEET

1. From 1979 to 1984, China's total product of society (the sum of the gross output value of agriculture, industry, construction, transportion and communication) averaged an annual increase of almost 9% and the national income grew by almost 8%. In the 1953-1978 period, the total product of society was barely up over 1% and the national income by almost 2%.

Per capita national income was 6.6% from 1979-1984 and 3.9% from 1953-1978.

2. Total agricultural ouput value averaged an annual increase of almost 9% from 1979 to 1984; crop output value grew 6.6% annually over the same period. China produced 17 million more tons of grain and 650,000 more tons of cotton every year (1979-1984), raising the per capita grain supply from about 318 kilograms (kilogram = 2.2 lbs.) to 395 kilograms (kg.) and per capita provision of cotton from 2.3 kg to 5.9 kg. Government sources say these figures are far higher than in the earlier period through 1978.

Farm income was 150 billion yuan in 1984, compared to 92 billion yuan in 1978, an average increase of 17% per year. From 1953 to 1978, the annual growth rate was 5.5%.

3. China's total industrial output value had an average annual increase of 8.9% (almost 9%) from 1979 to 1984. Figures for the earlier period are not available.

4. From 1979 to 1984, consumption levels rose by 10% annually. Example: An average Chinese is using 10.3 meters of cloth a year, up almost 30% from 1978.

5. The average annual growth rate of farmer's consumption level rose from 1.8% in 1953-1978 to 9.8% from 1979 to 1982; for the non-agricultural population, the figures went up from 2.9% in the earlier period to 3.3% in the later period.

6. Foreign trade in revenue as a percentage of the Total Product of Society (the equivalent of GNP in capitalist systems) has doubled from 6.6% in 1979 to almost 13% in 1985.

SOURCES:

Beijing Review, no.10, Mar.10, 1986
Beijing Review, no.15, April 14, 1986
"Understanding Chinese Trade," John Frankenstein ,Current History, Sept.1986, p.259

STUDENT HANDOUT #9

TAKE THE INITIATIVE AND RUN

One of the most widely reported effects of China's current economic reforms is the encouragement of an entrepreneurial spirit in China. Many people have found their own niches within the reforms, either by establishing private businesses or by pooling local resources and forming collective businesses.

The types of new ventures vary greatly. In urban areas, the streets are reportedly clogged with "fast food" stands (usually fried breadsticks or bowls of noodles) and with farmers who travel to the cities to sell their foodstuffs at a profit.

The services sector has attracted many entrepreneurs in pursuits as diverse as tailoring, "driving" a pedicab, running a beauty shop, and selling photographic services to tourists.

The new entrepreneurial opportunities have benefitted many Chinese. The average rural incomes increase every year, some to the previously unheard of $50,000 a year level. Merchants and farmers alike are now able to increase their family incomes, and are able to buy consumer goods not available to them before.

The following are two stories about entrepreneurial success:

China Daily, Monday, May 18,1987

Responsibility lets factories prosper

by Zhu Yuan

Changzhou Dongfeng Printing and Dyeing Mill, a key enterprise in its industry, has increased output value and profit in the two years since adopting the responsibility system, People's Daily reports.

At the beginning of 1985, the mill signed a contract with the Changzhou Textile Industrial Company employing the system.

But, just after that, the rise in raw material prices deprived the mill of 2.2 million yuan in profits. The mill then turned to its workers.

The workers enthusiasm was stimulated and a loss was avoided owing to the high work efficiency that the contract system brought out.

In 1986, the mill faced losses caused by both a rise in raw materials prices and waste in its production. This time, another contract system within the mill was adopted. The approach connected profits with each worker's reward by proportioning the profits among units within the enterprise.

As a result, the practice of reducing waste in production prevailed throughout the mill. The enterprise not only avoided losses, but also increased its output value and profit by over 20 percent.

In an accompanying commentary, People's Daily said that the example set by the mill showed the effectiveness of the contract responsibility system.

In his work report to the Fifth Session of the Sixth National People's Congress, Premier Zhao Ziyang said that large and medium-sized State-run enterprises might adopt various types of contract responsibility systems in light of their varying circumstances so that a clear line could be drawn in responsibility, rights, and profit between the State, enterprises and individual workers.

This, a commentary in Economic Daily said, is both a summary of the practices of urban reform in recent years and a guideline for the enlivening of enterprises in the future.

The system, which first started and worked remarkably well in the countryside, has turned into a well-functioning mangement system for large and medium-sized State-owned enterprises after many years' experiment.

For many years, the ownership and management of an enterprise merged into a whole under the highly centralized economic system. State-owned enterprises have only been managed by the State. The enterprises themselves neither bore responsibility for the performance of their work, nor had any autonomy in management.

As a result, enterprises have become a negative machine for production, rather than economic cells full of life and vigor. Therefore, the enthusiasm of workers and vitality of the enterprises have been kept dormant.

With the advance of the urban reform starting in 1979, enterprises have been accorded more and more autonomy in management. But the problem of ownership and management mingling together still remains unsettled, so that many enterprises still cannot free themselves from the affiliation with certain administrative departments. And their performances are still fettered by interference from various areas.

Separation

That explains why large and medium-sized State-run enterprises have much less vitality and buoyancy than small and township enterprises.

The system can bring out the separation of an enterprise's management from its ownership. During the contract period, an enterprise will enjoy autonomy in management and use of its funds. Hence the enterprise will have a sound self-management to control its performance.

An enterprise will have to take risks under the contract, but it has the chance to benefit remarkably if it does well. As a result, the potential of the enterprise will be tapped, and its vitality and buoyancy will be boosted, said an official from the Enterprise Management Bureau of the State Economic Commission.

Another goal of the contract responsibility system is to strengthen the stamina of enterprises, urging them to use most of their profit for technical reform. This requires enterprises to make the most efficient use of their raw materials, energy resources, labour and equipment to gain as much profit as possible at the least cost.

It is no easy job to adopt the system. It is best to take a prudent attitude when signing a contract.

First of all, the profit and value output base on which the contract is signed, and proper proportion for distribution of profit between the State and the enterprise, are key to the success of the system.

Once decided, this should remain unchanged except for some grave changes in the State economic policy such as an adjustment of taxes and so on.

Enterprises will have more funds for their own use when adopting the system. How to make use of the funds is a concern for both enterprises and the State. From this rises the problem of keeping a tight rein on the expansion of consumption funds.

Experts suggest that proportions of of production development funds, welfare funds and funds for bonuses should be strictly decided when signing the contract, and taxes should be levied on wages and bonuses beyond the ceiling set by the State. Only in this way can expansion of consumption funds be brought under control.

The contract responsibility system is new in the country, and it leaves much room for improvement although practices show it is feasible. A lot of work has to be done to sum up the experiences of various forms of the system.

Ambitious Farmer's Industrial Bonanza

March 13, 1985, Tianjin (Xinhua) - A North China Farmer who succeeded in increasing his village's income 16 fold between 1978 and 1984 is now regarded as a local hero.

The secret of Yu Zoumin, Communist Party secretary of Daqiu Village, near the industrial port of Tianjin, lies in extending the villagers' operations from farming to industry and service trades.

Yu, who is also manager of the Daqiu company of agriculture, industry and commerce, now administers four factories with 19 subdivisions in addition to a farm of 320 hectares.

Products from these factories are sold in different parts of China.

A poor village just a few years ago, Daqiu earned 14 million yuan (about US $ five million) last year. The average per-capita after-tax income of the 3,100 residents came to 2,100 yuan (US $750) -- more than twice the average earned between 1971 and 1978.

With the neat garden-like fields and white factory buildings around the village, it is hard to imagine that the place had been an unsuccessful area not long ago, pestered by soil alkalinity.

Yu, wearing a stylish Western suit, and sitting in his spacious carpeted office, said he was in rags just a few years back. "we've taken full advantage of the new policies." Yu said with a smile.

The first step was to introduce the contract responsibility system, which encouraged initiative and increased farm yield considerably.

But farming alone was not enough to boost the village's income and improve living standards significantly.

Diversion

The best use had to be made of the increasing number of workers being released from the fields by rising productivity, Yu said.

He thought of diversifying the local economy, but had to convince his fellow villagers before he could start doing it. So he called them together to discuss the problem.

"Look, we are now growing 1,000 tons of grain a year, which is worth only 200,000 yuan," Yu told them.

"Even if we increase it to 5,000 tons, the net income would be only 600,000 yuan or 200 yuan a year per person."

He finally convinced the farmers that they had to diversify into industry or other ventures if they really wanted to improve their living standards. But he didn't know how a group of farmers with little technical knowledge could set up industry. Yu sought the help of Liu Wangming, who had some knowledge about industry. Yu raised 100,000 yuan (US $35,000) from among the villagers in 1978 for Liu to start a strip steel rolling mill. This brought in a profit of 300,000 yuan (US $ 107,000) the same year because strip steel was in big demand in Tianjin.

To augment the village's technical knowledge, Yu invited more than 100 people including professors, engineers, and skilled workers from Tianjin to act as consultants.

As the rolling mill yielded more profit, Yu spent 400,000 yuan (US $142,000) in establishing a college affiliated with the Tianjin Institute of Science and Technology to train villagers in various skills.

Grain Output

They now have, in addition to the rolling mill, an electrical appliances factory, a tube-welding shop and a printing house, with their fixed assets and circulating funds totalling 18 million yuan (US 6.4 million). And the number of people needed for growing grain has shrunk steadily from 1,200 in 1978 to 220 at present, Yu said.

Grain output hit a record high of 1,750 tons last year, 550 tons more than the previous peak.

"Our farming has benefited from our industry," Yu said. Over the past three years, well over a million yuan (US $350,000) from industrial profits has been diverted to the expansion of agriculture.

STUDENT HANDOUT #10
PROBLEMS OF DOING BUSINESS IN CHINA

When Deng Xiaoping announced that China was "opening her door" in the early 1980's, most American, Japanese and European businessmen were excited at the prospect of the "China Market." However, as they began to try and do business in China, many difficulties arose; difficulties caused by Chinese unfamiliarity with international business and by foreign lack of understanding of the Chinese economic system. In the last three to four years, many foreign business executives have expressed their frustration with China and doing business in China. Everyone has different complaints; the following is a summary of the most often cited problems by foreigners.

1. China's Attitude

"Because of China's rapid entry into the international market and consequent international attention, she appears to have become a rare and sought after quantity." Many business executives feel that this attitude has led to unreasonable demands and patience-trying negotiations by their Chinese counterparts.

2. Quality of End-Products

Having been isolated from the world economy for so long, China's products have not had to compete in the world market. Consequently, the quality of their products (industrial) are below-standard. The products of joint-ventures sometimes are also below-standard or of lower quality; when this is true, western investors often refuse to attach their companies' names to the product.

3. The Chinese System

When doing business in China, it is often unclear with whom it is best to do business. Within the Chinese system, lines of responsibility are intertwined and therefore it is hard to know exactly who has the power to do what. Similarly, the success of a Chinese business within China depends on what type of "connections" ("guan xi" in Chinese) the Chinese business executives have. In China, it helps to know someone in order to get things done. One last problem is the foreigners' inability to gauge whether or not their Chinese counterparts have access to foreign exchange or foreign exchange credits.

4. Legal Problems

The legal system in China, particularly laws concerning business, is still in the process of being developed. While the amount of laws governing contracts, import, export, joint-ventures, taxes, tarrifs, etc. has multiplied in the last few years, the system is still flawed. One of business executives' greatest complaints is that the Chinese government applies new, arbitrary laws, sometimes retroactively, to already established businesses and joint-ventures. [One example of this is an income tax law - concerning income received by foreign business

executives in China - which was applied in 1986 and was to tax foreigners retroactively for previous income earned.]

5. Costs

Most foreign business executives hoped to go to China and benefit from the low cost of labor. However, employment of Chinese by foreign firms is controlled by a Chinese government agency. This agency charges high salaries for workers, taking the bulk of this salary and paying the worker his actual, and substantially lower, salary. (This hampers worker incentive and enthusiasm in his new job.)

Not only is labor expensive, but so is the maintenance of an office and of expatriate office staff in China. One source estimates that an office in Beijing can cost from $50,000 a year (Beijing Hotel) to $125,000 (Great Wall Hotel). The estimated cost of maintaining one expatriate staff person is $150,000 to $200,000 a year.

One last cost gripe is the excessive import tariffs imposed by the Chinese government (40% versus 5-6% in the U.S.). These tariffs are imposed on imports of office equipment (computers, etc.), spare parts (i.e. for factory machinery), automobiles, and other items necessary to do business in China.

6. Delays

One final problem in China is the leisurely pace with which business deals are conducted. Delays occur because of bureaucratic red tape, intra-government (inter-ministry) competition and supply shortages. These delays ultimately cause added expenses to the foreigners trying to close a deal, finish a factory or engage in any other aspect of business.

<u>The Chinese Viewpoint</u>

While the above represents the western view of doing business in China, it is important to understand the Chinese viewpoint on the problems of doing business with the west.

First, the Chinese fear being cheated by the western countries. Inexperience in international trade makes them vulnerable to bad business deals. China has been made a "dumping ground" for other countries goods in the past, and hopes to avoid being exploited.

Second, conservative Chinese leaders fear the negative influence that dealing with capitalist businesses will have on Chinese citizens.

Third, the Chinese are afraid of accumulating a large national debt (like the developing countries of Latin Americ did in the late 1970's). They are therefore very conservative and cautious when it comes to spending foreign exchange.

STUDENT HANDOUT #11
TO GET RICH IS GLORIOUS, BUT...

Chinese officials fear that the move toward a so-called market economy could have numerous unpleasant consequences. The possibilities include: a- more economic crime; b- pollution; c- congestion in cities; d- loss of job security for workers.

a. Recent changes in Chinese law have extended the death penalty to a long list of non-violent illegal activities, including economic crimes. The death sentence can now be meted out for crimes including "speculating and profiteering," as well as smuggling narcotics, historical artifacts, and weapons.

The "get-tough" policy seems to represent a fear that the new open door policy toward the outside world could have negative consequences. Special problems could come when residents compete to acquire hard-to-get imported goods and/or buy their goods on the black market, outside government controls.

Some examples of the government effort to control the situation:

A high-ranking Communist Party official was sentenced to life imprisonment for accepting more than $10,000 in bribes.

Another high-ranking party official was sentenced to life imprisonment for illegally reselling 31 imported cars. With an accomplice, he allegedly pocketed a total of more than $20,000.

There is also a concern about an increasing number of cases involving speculation and tax evasion. From January to May of 1986, Chinese courts handled 44.9% more cases of economic crime than in the same period of 1985, indicating the growing concern about the problem.

b. There is also concern about the air pollution that is likely to come with heavier industrialization and more consumer use of cars in a society that already has air quality problems because of heavy use of coal.

One Chinese official made the case well, saying, "There are 300,000 vehicles in Beijing, and the number is increasing every day. Yet, we don't have any control over auto emissions. Nitrogen oxide readings are rising rapidly." There are nine million people in Beijing, three million of whom ride non-exhaust-emitting bikes. In that city, "every major (type of) air pollution is well in excess of minimum U.S. standards. A major cause of the city's problem is the extensive burning of high-sulfer coal for home heating."

c. It has been a commonplace of industrialization in many societies that people have moved from rural areas to cities, often ending up in cardboard jungles without jobs or hope for the future. A newspaper article in China Daily in July 1986, told of a "growing migrant population" in Beijing that has aggravated the city's long-standing problems of housing shortages, traffic congestion, and poor food services. There were 644,000 from outside Beijing listed as "temporary resident" in 1986, more than twice the number in 1978. Pople have been moving to the cities, either for long term or short term visits, partly because of the success of economic reforms on the farms. Only two farmhands are needed to do what was done by three a few years ago, according to agricultural authorities.

4. In the past, if nothing else, most Chinese could go through life assured that they had a job. This guaranteed employment idea was known as the "iron rice bowl." However, as the society moved into an incentive plan in the late 1970's, it also began to accept the idea that an inefficient worker might be subject to penalties for failing to meet job standards or, if he was on a contract, might find that his contract was not renewed.

(Information for this reading was compiled from China Daily, San Fransisco Chronicle, and Amicus Journal.)

TEACHER BACKGROUND INFORMATION
POST-MAO ECONOMIC REFORMS

1976: The Turning Point

1976 was a major turning point for China. With the deaths of Premier Zhou Enlai and Party Chairman Mao Zedong, and the subsequent rise to power of Hua Guofeng and Deng Xiaoping, China was able to break from the radical policies that dominated life during the Cultural Revolution (1966-76) and begin a new era. The leadership formulated a new economic path for China, using more liberal ideas from the early 1960s in a way that made it possible for China to introduce many new economic changes.

POST-MAO ECONOMIC POLICIES

1. The Four Modernizations and The Ten Year Plan

In 1975, Zhou Enlai gave a speech to the Fourth National People's Congress in which he stressed the importance of modernization in four vital areas -- agriculture, industry, modern defense and science/technology. He also stressed the importance of establishing a "comprehensive industrial and economic system." These ideas were the basis of the current reforms.

In February 1978, China's leaders announced the formulation of a Ten Year Plan (1976-1986). This plan emphasized the importance of quickly increasing the Chinese standard of living in order to increase support and confidence from the Chinese people. Overambitious in its goals, it called for rapid industrialization and for high increases in agricultural production. It established overly optimistic growth and investment targets which were beyond the means of the national budget. It stressed centralization in economic control, and high rates of investment in heavy industry and capital construction. In agriculture, it stressed the increase in sideline production and a shift to the policy of pay according to work.

The policies of the Ten Year Plan quickly ran into severe problems, like the overextension of state funds (and resulting national deficits) and the cancellation of two important and expensive joint-venture projects. Thus, in 1979, after Deng Xiaoping had replaced Hua Guofeng as China's leader, the government readjusted the policies to a more reasonable level of expectations.

2. The Seventh Five Year Plan

The current economic plan (for 1986-1990) is called the Seventh Five Year Plan. This plan has several dimensions. It emphasizes increasing levels of foreign trade, imports and foreign investment. It stresses the importance of efficiency and quality, and of education and technical training in particular

"expertness". It has as a general goal increasing the standard of living throughout the country, but at the same time stresses the need for moderate rates of growth.

The priorities of the plan are for investment in infrastructure and basic industries. In industry, it encourages the economic units to act like businesses, to be aware of profits-to-losses ratios and to take into account issues of efficiency. The state has returned to a system in which most products are allocated through the market (except for the most valuable inputs) and in which pricing policies in part reflect supply and demand.

An important innovation of the reform is the restructuring of rural, agricultural systems and economics. This change in the countryside, begun in 1979, is called the "contract responsibility system."

AGRICULTURAL REFORM

This new system is characterized by a reorganization of production through decollectivization, combined collective and individual endeavors, greater decision-making autonomy at the household level, and improved incentives. The commune as a unit combining political, economic, and social organization has been reworked into a set of smaller collective units. Administrative and political functions below the county level are now the responsibilities of the "xiang," or township. The collective, a term that has replaced "commune," still retains the role of economic overseer, organizing and managing services that are too large in scale to be handled by its smaller component parts.

The key change has been the introduction of household contracts. Under this system, the land, still owned by the collective, is distributed under contract to families on the basis of the number of people in the family or according to its labor power to farm the land. In addition, the household is alloted draft animals, and small and medium size farm equipment. Decisions about which crop to grow and how to manage production can be made by the individual household. The household signs a contract with the production team or the collective to produce a certain quantity of agricultural commodity for the unit. After paying a state agricultural tax, anything earned over and above the quotas belongs to the peasants themselves. They can either choose to sell it to the government at a "bonus" price (as much as 50% more than the official price paid by the government per unit), or sell it on the free market. Free markets, which had existed during the Cultural Revolution but under severe restrictions, have flourished. Prices are usually higher than at state stores, but quality is better. Efficiency in production is therefore boosted by these new incentives to work well and reap the benefits.

INDUSTRIAL REFORM

However, industrial reform is more complex than agricultural reform. Most industries are interconnected and vertically integrated. In other words, factories not only produce final products, they also produce intermediary and primary inputs. Industrial reform is also more politically complex than agricultural reform. In all centrally planned economies, because of the priority placed on building up heavy industry, ministries and cadres connected with heavy industry hold more political power than other groups within the economy. Similarly, because the coastal areas in China have the highest concentration of industry, their provincial governments hold quite a bit of power. These vested interests can be significant obstacles to industrial reform, and that is one reason why reform has been slow to develop.

Essentially, the goals of industrial reform are similar to those of agriculture; decentralization of decision-making to the level of the enterprise (and not local government) and increased incentives to promote production. Using rural reforms as an example, the government adopted a set of measures, also called a "responsibility system," to decentralize allocation, investment and decision-making to enterprise management, and to increase efficiency and output by linking them to remuneration through profit retention.

However, reform has been piece-meal. Reforms seem to follow a cycle of promotion, limited implementation (due to resistance from some of the vested interests) which leads to mistakes and dysfunction of the reform, followed by retrenchment of the reform and eventually the promotion of a new reform designed to correct the mistakes of the previous reform. Several problems have resulted.

PROBLEMS AND DEBATES

1. Industry

The first problem of industrial reform is that the much needed reform of the pricing system has not yet been implemented. (Currently, there are different sets of prices most of which are artificially set by the government.) The fact that prices do not reflect supply and demand causes dysfunction in the economy because producers are not responding to economically correct signals of scarcity and need.

A second problem is that the decentralization of investment has caused a surge in investment by local governments and enterprises. This investment is often redundant and inefficient, and thus constitutes a waste of state resources. Decentralization has also resulted in a reduction of the central government's financial resources and thus a reduction of the means of control.

A third problem in industrial reform is the interference of the Party in the daily management of enterprises. While some of the reforms have been geared to getting the Party cadres out of daily affairs, it has not been completely successful in doing so. Unfortunately, these cadres are not trained to run businesses and enterprises, and their interference has adverse economic effects.

A final problem with the industrial reforms is that the benefits of the incentive system are unequal both within a factory and between factories and geographic regions. This leads to a more unequal income distribution, which runs counter to orthodox Marxist philosophy.

2. Agriculture

While significant gains have been made in China's countryside, the growth has also brought problems. Although the responsibility system has brought new wealth to certain areas, and while almost all areas and regions have benefitted, rich areas have gained more than poor areas, thus widening the regional inequities. (However, gaps between rural and urban incomes have begun to decrease, as rural growth has overtaken urban development.)

A second problem which may result from the new policies is a shift in the actual products being farmed, in particular a shift away from grains and towards "cash crops" like cotton and oilseed. Self-sufficiency in grain is very important to many of China's older cadres who do not approve of this trend. This problem may be exacerbated by another problem -- changes in the price structures. With prices beginning to reflect demand for certain products, the higher prices which these cash crops attract is a further incentive to move away from the traditional crops.

A third problem is that the new system has set back China's birth control policy. Now that family income is dependent on output, the more people there are to work the land, the better the chances to increase income. There has also been a renewal of the preference of sons over daughters. This problem is complicated by the fact that with the loosened control of the state over the countryside, particularly with the dissolution of the communes, the ability to actually enforce birth control policies has been greatly reduced.

3. General

This brings us to another, more theoretical problem. With this dissolution of control over the countryside, the state and the Party lose their ability to control the country as a whole. This is the argument of some leftists within the government. Following from this is a very important issue tied to the loosening of agricultural and industrial structures; the problem of widespread corruption which seems to be emerging in China.

Economic crime has become a serious national problem. The desire to "get rich" has encouraged tax evasion, theft, bribery, and corruption at high official levels. This problem has fueled the arguments of the leftists that the new policies will increasingly lead to "capitalistic" tendencies.

This leads to the most basic problem and source of debate over the new policies. It is a question of ideology, of the "deradicalization of the revolution". Some of these new economic policies do reflect "capitalist" ideas (the use of market allocation, for example), and this may become a problem when the socialist goals of the country and the actual policies being enforced come into conflict.

For example, one of the newest innovations of industrial reform is the introduction of joint-stock companies. The government believes that if workers actually own part of their enterprise, they will have more incentive to see that it is efficiently run. However, this runs contrary to orthodox Marxist ideology which clearly states that in a socialist country, ALL means of production and all resources are owned "by the People" (that is by the government); in other words, there is no private ownership. But, by owning stocks in an enterprise, the workers can be said to actually own part of the company. These two phenomena may be in conflict and conservatives in the Chinese government are quick to pick up on these types of contradictions, especially ones which might serve to slow the pace of reform.